Minutes

Texas Bond Review Board

Planning Session

Tuesday, July 13, 2010, 2:00 p.m.

Capitol Extension, Room E2.026

1400 N. Congress Avenue

Austin, Texas

The Texas Bond Review Board (BRB) convened in a planning session at 2:00 p.m., Tuesday, July 13, 2010 in the Capitol Extension, Room E2.026 in Austin, Texas. Present were Ed Robertson, Chair and Alternate for Governor Rick Perry; Lita Gonzalez, Alternate for Comptroller Susan Combs; and Don Green, Alternate for Lieutenant Governor David Dewhurst. Also in attendance were Tom Griess with the Office of the Attorney General, Bond Finance Office staff members and others.

**I. Call to Order**

Bob Kline, Executive Director of the BRB, called the meeting to order at 2:03 p.m. He announced that this was a planning meeting of Board staff to receive and discuss information relative to the applications before the Board. No votes would be taken.

1. **Texas Public Finance Authority (TPFA) State of Texas General Obligation Commercial Paper Notes (Cancer Prevention and Research Institute of Texas Project), Series 2009A and 2009B**

Representatives present were: Dwight Burns, Executive Director, TPFA; John Hernandez, Deputy Executive Director, TPFA; Susan Durso, General Counsel, TPFA; Carol Polumbo, Bond Counsel, McCall, Parkhurst & Horton; Tim Kelley, Financial Advisor, Coastal Securities; Heidi McConnell, Chief Operating Officer, Cancer Prevention and Research Institute of Texas (CPRIT); Kristen Doyle, General Counsel, CPRIT; and Alfonso Royal, Finance Manager, CPRIT;

Bob Kline stated that in July 2009 the BRB approved the TPFA State of Texas General Obligation Commercial Paper Program (CPRIT), Series 2009A (Taxable) and 2009B (Tax-Exempt) (the Program) with a maximum authority of $225,000,000 for FY2010. TPFA is seeking approval to increase the Program from $225,000,000 to $450,000,000 for the 2010-2011biennium.

The 81st Legislature authorized issuances for the CPRIT Program of $225 million in each of fiscal years 2010 and 2011 and appropriated debt service of $5,887,808 and $29,627,911 for each year, respectively, for a total appropriation of $35,515,719 for the biennium.

The CPRIT Oversight Committee approved the Request for Financing on June 19, 2009. The TPFA Board authorized the Program increase on June 8, 2010.

TPFA and the Comptroller of Public Accounts (CPA) are working to amend the current liquidity agreement from a commitment of $225 million to $450 million plus 270 days of interest. The commitment is expected to last until August 31, 2011.

Heidi McConnell stated that CPRIT received 1,100 proposals both in research and prevention in its first year of operation. CPRIT has over 150 out-of-state oncology scientists and other experts who have performed over 8,500 reviews. CPRIT has made more than 155 awards to 43 institutions and organizations throughout Texas, 25% of which were prevention awards and 75% research awards.

On June 18, 2010 CPRIT approved approximately $148 million in grants for its second round of funding and anticipates that the commercial paper to fund the grants will be issued August 16, 2010.

Dwight Burns mentioned that TPFA continues to work on its request for liquidity from the state and will work with the state to meet future liquidity needs. Since the 2008 economic collapse, the big banks have started to return to the liquidity market, but they provide lower amounts of liquidity at higher fees than the state.

1. **EXEMPT - Texas Public Finance Authority (Texas Windstorm Insurance Association) Revenue Commercial Paper Notes**

Representatives present were: Dwight Burns, Executive Director, TPFA; John Hernandez, Deputy Executive Director, TPFA; Susan Durso, General Counsel, TPFA**;** Chris Allen, Financial Advisor, First Southwest Securities; Paul Martin and Julie Houston, Bond Counsel, Winstead P.C.; Jim Murphy, Vice President, Actuary; and Mike Perkins, General Counsel, Sneed, Vine & Perry.

Bob Kline commented that the write up for this transaction is still in progress. Although TPFA submitted an exempt NOI on July 1, 2010, a policy decision from the Board will be needed regarding the term of authority for the new commercial paper program.

Dwight Burns said that TPFA is requesting that the liquidity for the CP Program extend until December 31, 2011 instead of August 31, 2011. The extension would give TPFA additional time after hurricane season to renegotiate the terms of the liquidity if needed.

Bob Kline requested that TPFA submit an amended NOI today asking for CP authorization through August 31, 2011, and BRB staff would send the write-up to the Board in the afternoon.

1. **EXEMPT - Texas Public Finance Authority Charter School Finance Corporation (Evolution Academy Charter School) Education Revenue Bonds, Series 2010A, Taxable Education Revenue Bonds, Series 2010B, and Taxable Education Revenue Bonds, Series 2010Q (Qualified School Construction Bonds)**

This transaction is on the EXEMPT track with the 6-day review period ending at the COB Thursday, July 15.

1. **EXEMPT - Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School) Series 2010A, Taxable Education Revenue Bonds Series 2010B, and Taxable Education Revenue Bonds Series 2010Q (Qualified School Construction Bonds)**

TPFA submitted its exempt NOI on Thursday, July 1, 2010. Staff is expecting additional information from TPFA on this transaction.

1. **EXEMPT - Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (A.W. Brown Fellowship Charter School), Series 2010Q (Qualified School Construction Bonds – Direct Pay)**

TPFA submitted its exempt NOI on Thursday, July 1, 2010. Staff is expecting additional information from TPFA on this transaction.

1. **EXEMPT - Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Odyssey Academy, Inc.), Series 2010A, Taxable Education Revenue Bonds Series 2010B, and Taxable Education Revenue Bonds Series 2010Q (Qualified School Construction Bonds – Direct Pay)**

This transaction is on the EXEMPT track with the 6-day review period ending at the COB Tuesday, July 20.

1. **Texas Water Development Board (TWDB) request to reclassify five issues of State Participation general obligation bonds from not self-supporting to self-supporting**

Representatives present for TWDB were Piper Montemayor, Debt & Portfolio Management Director and Ken Petersen, General Counsel.

Bob Kline stated that the TWDB seeks to reclassify $139,050,000 of outstanding State Participation Program (SPP) debt from not self-supporting to self-supporting. The reclassification is permitted pursuant to the Texas Constitution which allows debt included in the Constitutional Debt Limit (CDL) calculation to be removed if the issuer can demonstrate to the satisfaction of the BRB that the bonds no longer require payments from general revenue. BRB staff has historically classified Development Fund II authorizations as self-supporting until legislative appropriations for debt service are made. Any authorizations for the SPP, Water Infrastructure Fund or the Economically Distressed Area Program are not self-supporting and are included in the CDL calculation.

On July 7, 2010 Kevin Ward, Executive Administrator for the TWDB certified that the SPP debt to be reclassified is self-supporting.

Bob Kline said that this is the first time such a reclassification has come before the Board, and the subject bonds were issued from 2001 through 2009.

1. **The Texas State University System (TSUS) Revenue Financing System Revenue Bonds, Series 2010**

Representatives present were: Peter Graves, Vice Chancellor for Contract Administration, TSUS; Carol Polumbo, Bond Counsel, McCall, Parkhurst & Horton; and Mary Williams, Financial Advisor, First Southwest Company.

Bob Kline gave an overview of the transaction stating that the System was requesting approval to issue its Revenue Financing System Revenue Bonds, Series 2010 in one or more series with a par amount not to exceed $72,595,000 and maximum total proceeds amount not to exceed $76,749,928 including premiums. The proceeds of the Series 2010 bonds will be used to construct new student residence halls on both the Sam Houston State University and Texas State University – San Marcos campuses and construct a Learning Resource Center at the Lamar State College campus in Port Arthur.

The System’s Board plans to meet on July 15, 2010 to amend the 14th Supplemental to extend the maximum maturity of the bonds from March 15, 2034 to March 15, 2044.

Mary Williams stated that the maximum amount of $76,749,928 that Mr. Kline read was submitted in the original application but an amendment extends the maximum maturity of the bonds to March 15, 2044 to allow for a maximum issuance amount of $79,552,112.60 including premiums, if any.

Bob Kline stated that BRB would send out a revised application summary to the board members.

1. **Amend approval language adopted January 28, 2010 for the Texas Transportation Commission State of Texas Highway Improvement General Obligation Bonds (Multiple Series)**

Representatives present were John Munoz, Deputy Director, Finance Division, TXDOT and Carol Polumbo, Bond Counsel, McCall, Parkhurst & Horton.

The board has been provided the amended language which allows the Commission to issue $2,000,000,000 during fiscal 2011.

1. **Recommended changes to Title 34 Texas Administrative Code, Part 9, Chapter 181.5 and 181.10 (Providing Interest Rate Management Agreement disclosures to the Bond Review Board)**

Staff is reviewing comments from TXDOT, UTS, TDHCA and the AG’s office on the recommended changes. Staff will provide the Board with additional analysis when this process is completed.

1. **Public Comment**

There was no public comment.

1. **Date for Next Board Meeting**

The next Board meeting is scheduled for Friday, July 30, 2010.

1. **Items for Future Agendas**

Each of the Alternates received an updated list detailing future bond transactions.

1. **Report from the Executive Director**

* BRB’s LAR will be distributed to the Board by Friday, July 22 for review and is due on August 2.
* BRB staff has contacted Peter Shapiro of Swap Financial Group to get an estimate of the costs to engage a third party consultant to assist the BRB with oversight of the state’s use of interest rate swaps.
* BRB staff will submit to the Alternates a summary of the swap issuances over the last several years.
* BRB staff is reviewing comments from UT, TXDOT, UH and TPFA on the issue of the Treasury offsetting BAB subsidy payments as a result of taxes owed by the issuer. Staff will provide the Board with a memo of its findings on this problem.
* Rob Latsha mentioned that the seventh Hurricane Ike bond application requesting approximately $180 million for a new 176-bed hospital located in Clear Lake had been received.
* Susana Dawn gave an update on the CEP stating that 60 agencies have responded by indicating that they would not have any capital projects for the 2012-2013 CEP and 21 agencies are in the process of completing their project submissions. The CEP is due September 1, 2010.

**Adjourn**

There being no further business to discuss, the planning session was adjourned at 3:31 p.m.